

Schedule of Audit Findings and Responses

Mount Baker School District No. 507 Whatcom County September 1, 2008 through August 31, 2009

1. The School District needs to strengthen its internal controls to ensure accurate accounting and financial reporting.

Background

District management, the state Legislature, state and federal agencies and bondholders rely on financial statement information to make decisions. It is the responsibility of District management to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. Our audit identified significant deficiencies in controls that adversely affect the District's ability to produce reliable financial statements.

We made similar recommendations to District management during the previous audit of its fiscal year 2008 financial statements; however, significant deficiencies in the District's internal controls over the preparation of its financial statements continue.

Government Auditing Standards prescribed by the Comptroller General of the United States require the auditor to communicate a significant deficiency, as defined below in the Applicable Laws and Regulations section, as a finding.

Description of Condition

We identified the following weaknesses in internal controls that, when taken together, represent a significant deficiency in controls over financial reporting:

- The District employee responsible for the preparation of the financial statements, notes and required schedules does not have adequate knowledge regarding the accounting and reporting requirements shown in the *Accounting Manual for Public School Districts in the State of Washington*.
- A lack of oversight and monitoring of the financial statement preparation and monthly reconciliation processes continues to exist. One person is responsible for these processes, with no oversight or monitoring by someone else at the District.
- The District's bank accounts were not reconciled or replenished on a monthly basis, and the District did not maintain documentation of reconciliations for all months during the audit period.

Cause of Condition

The District has not made addressing prior audit recommendations on how to improve internal controls over its accounting and financial reporting a priority.

Effect of Condition

Our audit identified the following errors in the District's financial information:

- Cash and investments shown on the financial statements were understated by \$14,767. The District was not aware of a balance of \$6,480 in its "zero balance" bank account and did not include this amount on its financial statements. The District does not know why money is in this account. In addition, we found approximately \$8,287 in irreconcilable differences between the bank statement balance and the District's book balance for the Associated Student Body fund. These errors were not corrected in the final financial statements.
- The notes to the financial statements contained calculation errors and were missing disclosures required by the Accounting Manual. The District has corrected these errors.
- The Schedule of Expenditures of Federal Awards was not prepared using the format shown in the Accounting Manual, and included numerous errors. The District had to prepare six schedules before all errors were corrected.

Recommendation

We recommend the District establish internal controls to ensure accurate financial accounting and reporting. This should include:

- Ensuring employees who prepare the financial statements are provided the necessary resources, training and oversight to prepare accurate and supported documents.
- Strengthening internal controls over monthly bank reconciliations and implementing greater segregation of duties and oversight.
- Strengthening internal controls over the application of accounting standards to ensure appropriate supporting documentation is maintained for balances reported on the financial statements.
- Establishing and following a thorough review of the financial statements after final preparation by a knowledgeable person who is independent of the preparation process.

District's Response

We concur with the auditor's finding; however, we do not agree with the tenor of the auditor's statement that the District has not made it a priority to address prior audit recommendations. The Mount Baker School District continues to experience declining enrollments and has reduced administrative support positions accordingly, and a major

challenge is to ensure that staff reductions do not also result in deficiencies in the design of our internal controls. A fundamental goal of this District is continuous process improvements -- our educational mission and service to students are our core strategic areas -- and effective internal controls over our fiscal resources is an integral component of our success. Our progress to improve our internal controls may be ongoing, but that in no way diminishes the importance of the work or the desired results.

The District made good progress to improve our internal controls prior to the audit and these efforts will continue. The District has utilized outside consultants for the past two years to provide training in K12 finance and we will take advantage of future opportunities for staff development. The complexity and uniqueness of K12 fiscal operations requires continuous professional development.

We have already coordinated with the Northwest ESD 189 to request enhanced review services for the 2009/2010 fiscal close process. This was also our plan for the 2008/2009 fiscal year, but we were unable to do so because of the timing of when we closed our books.

Our work to review and enhance internal controls is ongoing. The practice to require independent reviews and sign-off of journal vouchers was established during 2008/2009, and fully implemented in 2009/2010. We have also added independent reviews of monthly reconciliations, and focused on the timeliness and completeness of our reconciliation process to ensure comprehensive reports to management.

The review of ASB operations and internal controls is on-going and we are considering how best to enhance controls to ensure the proper segregation of duties, as well as the accuracy and completeness of financial data. We anticipate completing our review and making process changes prior to the end of the school year.

Auditor's Remarks

We appreciate the steps the District is taking to resolving this issue. We will review the condition during the next audit.

Applicable Laws and Regulations

RCW 43.09.200 states:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefore; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all

statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

Budgeting, Accounting and Reporting System (BARS) Manual, Part 3, Accounting, Chapter 1, Accounting Principles and General Procedures, Section B, Internal Control, states in part:

Internal control is a management process for keeping an entity on course in achieving its business objectives, as adopted by the governing body. This management control system should ensure that resources are guarded against waste, loss and misuse; that reliable data is obtained, maintained, and fairly disclosed in financial statement and other reports; and resource use is consistent with laws, regulations and policies.

Each entity is responsible for establishing and maintaining an effective system of internal control throughout their government.

Government Auditing Standards, January 2007 Revision, Section 5.11, states in part:

For all financial audits, auditors should report the following deficiencies in internal control:

- a. Significant deficiency: a deficiency in internal control, or combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is a more than remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.
- b. Material weakness: a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.